

The Impact of Corporate Political Activity over Strategic Management

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Abstract

At this present rate of supersaturation of the markets, the interaction between economic actors and political officials gains a momentum without precedent. Difficulties faced by corporations generate lobby activities intended for soliciting financial support, public-private partnerships are sought, which provide income and safety during crisis, and governments are also inclined to dialogize with the business. There is also an increased risk of occurrence of negative externalities, such as corruption, especially in emerging economies. All this, along with the natural tendency of the corporations to pursue at all levels achieving their interests, increasing profits, creating competitive advantage, lead to an intense corporate political activity.

We propose to structure the article in two parts, first part includes an overview of business strategies and corporate policy, as they appear in the literature and the second - a comparative analysis on this type of action in various parts of the world, referring in particular to the U.S., Russia and China, and finally, to Romania, as part of the European Union.

In concluding this first part of the article, introductive to the corporate political activity, we'll build a glossary of keywords, which, by its very nature, will create an overview of the issues discussed

Keywords: *competitive advantage, political capabilities, corporate political activity, stakeholders, Public Choice*

1 Introduction

In a constantly changing world, in difficult economic conditions, Romania, and all other countries of the world follow their own paths. It would be desirable that our country's path would lead to balance and wellbeing. In the XXI century, once more, in Europe, in America, in Asia, all over the world there is a lot of interference between economic and political arenas, interference that appears to justify the Public Choice vision of politics.

Thus, as James M. Buchanan and Gordon Tullock contend, (Buchanan, Tullock, 1995¹), political behavior is similar to the behavior on the market of goods and services, i.e. individuals get into a relationship of exchange and each of them pursues its own interest by offering goods that are in favor of the one that is on the other side of the transaction. On the political market, politicians running for official high places and after a while those who are already inside the system, supply public goods, public services and public policies, initially as promises, then as facts. The citizens, businesses, interest groups are on the other side of this exchange, demanding, in a certain way, these public “goods”.

It is obvious that the strong companies, corporations, especially those whose businesses depend on the particular regulations of the state will act for influencing in their favor of those who set the rules. They act like this in order to enhance their competitive advantage and to counteract, if possible, those regulations that disadvantage them. In this context, it would be against human nature and especially against the orientation towards profit of the companies that possess the necessary resources and capabilities, not to take any action, to be passive, just to execute, and so not to have what is called a corporate political activity (CPA), a term already used in the literature devoted to this subject.

Political activities are included in the policy strategy of the company and may be several types:

- campaign finance;
- lobbying or legislative advocacy activities, direct or through specialized companies, orientated to the institutions involved in drafting laws or regulations aimed at, or affecting the corporation (the parliament, parliamentary committees, government regulatory agencies);
- participation in the formation of the electorate of a candidate or political party;
- information exchange with political factor.

The nature of these activities and how they are conducted varies from one country to another, from one region of the globe to another, according to the cultural characteristics of the area / country, to the historical, social, and political conditions, and to the laws in force. They can degenerate in illegal actions like bribery, generating corruption.

On the other hand, firms can act individually or they can join in groups of economic interests. It's proven that, in certain conditions, the lobby actions are most effective, i.e. when they are taken by interest groups, than when firms act individually. Since the mid-nineteenth century research was made related to interest groups (Olson, 1965²). Research has continued, and is presented in a vast specialized literature dedicated to this topic, fact that demonstrates the importance

¹ James M. Buchanan, Gordon Tullock, *Calculul consensului. Bazele logice ale democrației constituționale*, Romanian version Dr. Paul Fudulu, Editura Expert, Bucuresti, 1995

² Mancur Olson, *The Logic of Collective Action. Public Goods and the Theory of Groups*, Harvard University Press, 1965

and the major impact the actions of these interest groups, especially groups of economic interests, have on the political factor.

Olson describes the strong motivation that companies have to conduct political activities together. Thus, economic interest groups, such as a group of companies that seek to obtain financial support from the state, with a few members in comparison with the large group of the taxpayers of a nation, have much more chances of success than the citizens. This happens for several reasons, but, mainly, the incentives for the members of the interest group are stronger, because, if they are successful, they get enormous payoffs, moreover, because they know each other, their managers "can look into each others eyes", so they can't have a "free ride" attitude. In return, for the citizens it's more difficult to organize themselves as a group, for them the loss through taxes is small, and they can have a "free ride" attitude because "they can **wiggle through the crowd**."

Economic and political conditions in the world are continuously transforming, the large corporations operate all over the world, all the countries are going through a serious crisis (of trust, financial, economic, of overproduction), the political power of the European Union or of other supranational bodies are enhancing.

David Bach and Gregory C. Unruh (Bach, Unruh, 2004¹) argue that, along with the globalization of the markets and the heavy balance of the policies designed to reduce the pressure of the government on business, politics seems to become, paradoxically, increasingly important in business. They expose at least three reasons why this happens:

- Managers are faced with increasing demands from the stakeholders as a result of the impact of businesses on society and natural environment. According to the authors, the demands of different categories of stakeholders can be brought to a common denominator, reconciled only at the political level.

Here is a quote from the online magazine American Industry Week on the chemical industry: "For the members of the American Chemistry Council (ACC), one thing is clear – policymakers, industry and the public must start playing on the same team. America needs from the new Obama administration and new Congress a public policy approach that treats the chemical industry as an asset and not a threat, an essential vehicle of change and not an obstacle, a partner and not an adversary." ²

- In the technologically dynamic economic sectors, the ability to influence politics is a key strategic capability, because the political

¹ David Bach, Gregory C. Unruh, „Business – Government Relations” in a *Global Economy: Broadening the Conceptual Map*, IE Working Paper, WP04-37, 07-12-2004, <http://ideas.repec.org/p/emp/wpaper/wp04-37.html>, accessed 9.02.2009

² Cal Dooley, CEO, American Chemistry Council, "Viewpoint -- Chemistry Industry Seeks Partnership with Obama Administration, Congress", *Industry Week*, 21.01.2009, http://www.industryweek.com/articles/viewpoint_chemistry_industry_seeks_partnership_with_obama_administration_congress_18247.aspx accessed 10.02.2009

factors, through their regulations, can influence the viability and the profitability of the strategic innovation.

Among these industries, the pharmaceutical and medical device industry in general presents a number of features, special through their huge social impact. Richard J. Meelia, Chairman, president and CEO at the company Covidien Ltd., Mansfield, made the following statement on the occasion of President's Barack Obama investiture: "Competition in the medical device industry is characterized by continual innovation, and companies need to develop and launch a steady stream of new product offerings to remain competitive in the global marketplace. We would welcome support from the new administration that would provide additional incentives for research and development to drive technological innovation in our industry. These innovations can provide improved patient outcomes and slow increases in the cost of health care over time. In addition, support for programs that spur investment will allow companies to expand operations, hire new employees and accelerate growth." ¹

- Due to the decrease of the transaction costs of the international business in the globalization, companies are in the position to face the political and regulatory environments differently, hence resulting need to develop skills in terms of political management.

In the conflict arisen in 2001 in the U.S. between Ford and Bridgestone, conflict based on the Ford's statement that Firestone poor quality tires where the only reason for the Explorer's accidents, the U.S. subsidiary of the Japanese company Bridgestone had a behavior described as total un-Japanese: "'Feisty' is a word rarely associated with Japanese companies. Though they are often fierce competitors, they tend to be deeply reluctant to expose problems, conflicts and disagreements, and they have a reputation for nursing failed relationships and projects for years rather than suffer the embarrassment of a public argument or admission of error." However, the Japanese had in this situation a different, non-specific attitude, asking for an investigation by the National Highway Traffic Safety Administration, to bring light on this issue. "... Bridgestone chose a deliberate path away from 'Japanese-ness' months before the rupture with Ford, by naming John Lampe chief executive of the Firestone unit last October, replacing Masatoshi Ono, a longtime Bridgestone executive. [...] 'Ford missed the signal that said Bridgestone/Firestone was no longer a Japanese company, that it is much more an independent subsidiary,' said James Treece, Asia editor of Automotive News." ²

¹ "Life Sciences CEOs line up questions for Obama", by Mass High Tech staff, *The Journal of New England Technology*, 23.01.2009, <http://www.masshightech.com/stories/2009/01/19/weekly3-Life-sciences-CEOs-line-up-questions-for-Obama.html>, accessed 10.02.2009

² Miki Tanikawa, "International Business; Bridgestone Split From Ford Is Seen as Most Un-Japanese" *The New York Times*, Published: June 2, 2001, <http://query.nytimes.com/gst/fullpage.html>

2 Political activities integrated in the corporate political strategy

Political activities of the company may be included in the corporate political strategy, "a battle" for a long term that takes into account the political contextual determinants of the company, often accompanying the market strategies designed to increase the competitiveness and the competitive advantage. An example would be the political activities that a company can carry out to remove / reduce the protectionist barriers for entering on a new market, or those of a company wishing to obtain support from the state for certain activities. Political factors are exogenous factors of the company; they are part of the environment and influence in many cases the extent the company reaches or not its specific goals¹.

David Bach and Gregory C. Unruh (Bach, Unruh, 2004²) identify the **political resources** necessary for the implementation of the corporate political strategy as several types:

- financial – used for campaign contributions for certain politicians or political organizations like political parties, in the United States through Political Action Committees³ (PAC);
- information – for understanding political processes;
- social – networks of relationships and contacts with politicians, potential allies, opinion leaders;
- institutional – legal recognitions or positions held by the managers or the companies in the political processes, such as participation in experts committees.

As such, the ability to use all these resources into political actions represents, as David Bach and Gregory C. Unruh argue, **political capabilities**.

Political activities of the company are determined by its **political strategy**. And the corporate political strategy is included in what David P. Baron (Baron, 1995⁴) calls "**integrated strategy**". In his vision, an effective strategy of a company is consisted of two integrated components: a market and a non-market component. The non-market component of the strategy is oriented to elements from the company's environment that influences the company, others than those belonging to the market. These elements, the company interacts with voluntarily or involuntarily, is in Baron's opinion the following: the public, stakeholders, the state, public institutions, media.

¹ Amedeo Istocescu, *Strategia și managementul strategic al firmei*, București, Editura ASE, 2003

² David Bach, Gregory C. Unruh, „Business – Government Relations” in a *Global Economy: Broadening the Conceptual Map*, IE Working Paper, WP04-37, 07-12-2004, <http://ideas.repec.org/p/emp/wpaper/wp04-37.html>, accessed 9.02.2009

³ “Political Action Committees (PACs) are an important aspect of American politics and the American electoral system. Political Action Committees exist legally as a means for corporations, trade unions etc. to make donations to candidates for Federal office - something that they cannot do directly. [...] There are more corporate Political Action Committees than any other type.”
Source: http://www.historylearningsite.co.uk/political_action_committees.htm,

⁴ David P. Baron, “Integrated Strategy: Market and Nonmarket components”, *California Management Review*, Vol. 37, No. 2, 1995, pp. 47-66

The corporate political strategy is one of the non-market strategies, following the features that Baron attributes to this type of strategy: "a concentrated pattern of actions taken in the nonmarket environment to create value by improving its overall performance, as in the case in which a firm works through its home government to use trade policy to open a foreign market". And yet the two types of strategies, market and non-market are interconnected, they act unitary: "[...] many nonmarket issues arise from market activity, one approach [is] to view nonmarket strategies as complements to market strategies that in some cases can be used to directly address the five market forces Porter identifies". This is why the two types of strategies form a whole - the corporate integrated strategy.

Non-market strategies represent one of the main research themes of the scholars specialized in strategic management all over the world. Strategic Management Society organized in 2007, in San Diego, a conference on "The Challenges of Non-market Influences on Market Strategies", and the event chairman, Peter Smith Ring, was showing in the Conference Program: "Non-market strategies can be employed to create and/or maintain a firm's source(s) of competitive advantage or to erode or destroy the sources of competitive advantages of its competitors. How firms compete against each other in market contexts can and will be impacted by treaties, regulations, legislation, litigation, the media and a diverse and rapidly increasing population of non-governmental organizations (NGOs). And a wide variety of institutions are available to firms pursuing non-market strategies: the WTO, the courts, legislative and regulatory bodies, the media."¹

Baron makes an extremely important remark: to be effective, integrated strategy must be appropriate both to the environment in which business operates and to the competencies it has.

And the managers (along with other categories of employees specializing in PR, legal issues, relations with the political environment) must take the responsibility for obtaining performance in non-market and in the market environment as well.

Corporate political strategies are pursuing, by „tailoring” public policies, to reduce uncertainty, to reduce or eliminate threats and to create opportunities, to build competitive advantages or to determine the reduction of the competitive advantages of the competing companies (Lord, 2000²), all of these for increasing its performance and profits.

3 Corporate political activities – comparative analysis

Depending on the area / country in which a company functions, whether local or a subsidiary of a multinational corporation, management must adjust to the modalities, to the patterns, often particular, in which business are made here, to the type of relationships between business and political factors, as to other features related to specific interactions with other categories of stakeholder. Company

¹ Peter Smith Ring, Strategic Management Society, 27th Annual International Conference, San Diego, 2007, Conference Program Chair, <http://sandiego.strategicmanagement.net/pdf/2007Call.pdf>

² Michael D. Lord, "Corporate Political Strategy and Legislative Decision Making", *Business and Society*, Vol. 39, No. 1, March 2000, pp. 76-93

managers must give special attention to these features of the area. They are due to both tradition and culture, and the type of political system and state organization in the country /area.

In a study on relations between state and business (Iankov, 2007¹), Elena A. Iankov shows that such relationships fall, generally, in one of the following models:

- The neo-liberal, Anglo-Saxon model states for the free market supremacy; the role of the state is to ensure an appropriate environment for business, suited for success by maintaining the institutional infrastructure and accessing macroeconomic procedures to avoid recession and inflation; the relationships between firms and political factors are more of adversity than cooperative and the major political activities of the companies are lobbying to reduce costs of compliance and obtaining benefits;
- The statist model – specific in countries like France² – is characterized by the fact that the role of state is much more extended. The state assumes a leadership role, identifying the long term, based on the information it holds markets and products, which appear to be profitable in the future. It shows an increased interest in corporate strategies and activities.
- The corporatist model is another interventionist model, in which the state forms a partnership with interest groups and together they coordinate the economic activity. Corporatism appears in various forms, from the model of fascist Italy of Mussolini, continuing with the after the Second World War Japanese case³, and met today in China (Unger, Chan, 1995⁴), but also in Russia in a special form (Zarakhovich, 2005⁵).

No doubt, the nature of the relationships between business and the political factors in one country or another does not fit exactly into a "model". But the models facilitate the understanding of phenomena and we will start from here in on our comparative analysis of the situations the corporations are dealing with in relation to the state and to the politicians in various parts of the world.

¹ Elena A. Iankova, „Business-Government Relations in EU-Acceding Countries: Towards a Model of Institutional Change”, EUSA Tenth Biennial International Conference, Montreal, Canada, May 17 – May 19, 2007, <http://www.unc.edu/euce/eusa2007/papers/iankova-e-06d.pdf>

² John Weber argues that in 2001 the statist tendencies are more often met in the capitalist countries in European Union, especially in France and. See John Weber, *Socially Mixed Economies. How Social Gains Develop in Opposed Systems*, Lexington Books, 2001, pp. 81-83

³ Japan, The Role of Government and Business, Library of Congress Country Studies, [http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field\(DOCID+jp0137\)](http://lcweb2.loc.gov/cgi-bin/query/r?frd/cstdy:@field(DOCID+jp0137)),

⁴ Johathan Unger, Anita Chan, „China, Corporatism, and the East Asian Model, *The Australian Journal of Chinese Affairs*, 1995, <http://www.usc.cuhk.edu.hk/>

⁵ Yuri Zarakhovich, “Q&A: Putin's Critical Adviser”, *Time*, 2005
<http://www.time.com/time/world/article/0,8599,1145192,00.htm>

From the issues presented so far, it can be seen the complexity, the diversity of forms of manifestation, the actuality and the importance of corporate political activity.

A measure of the importance of this type of activity is given by the wide variety of stakeholders involved:

- all those directly interested in the company's profit, like owners, employees,
- owners and employees of other companies from the same group of interest,
- even people involved in other companies that are in the same field of activity and may benefit from favorable legislation,
- citizens who leave in the area, receiving welfare generated by the local profitable company.

There is, of course, and a reverse of the coin - those who have suffered as a result of the success of company in its political actions:

- those who may suffer because the environment was polluted,
- ecology militants,
- competitors.

The phenomenon is ample, the implications are multiple and, in addition, corporate political activity takes various forms generated by the economic, social, political, cultural environment of the country where this activity takes place. We will detail these issues in Part Two of this study, where we will analyze the corporate political activity in the U.S., the homeland of this type of activity, but also in post-communist Russia and in China, one of the current powers of the world. Finally we will refer to the corporate political activity in Romania, as a part of the European Union, in a world of globalization.

Glossary of keywords:

Interest group = „any association of individuals or organizations, usually formally organized, that, on the basis of one or more shared concerns, attempts to influence public policy in its favour. All interest groups share a desire to affect government policy to benefit themselves or their causes. Their goal could be a policy that exclusively benefits group members or one segment of society (e.g., government subsidies for farmers) or a policy that advances a broader public purpose (e.g., improving air quality). They attempt to achieve their goals by lobbying - that is, by attempting to bring pressure to bear on policy makers to gain policy outcomes in their favour.”¹

Lobbying = “any attempt by individuals or private interest groups to influence the decisions of government; in its original meaning it referred to efforts to influence the votes of legislators, generally in the lobby outside the legislative chamber. ***Lobbying in some form is inevitable in any political system.*** [...] The right “to petition the government for a redress of grievances” is protected in the

¹ <http://www.britannica.com/EBchecked/topic/290136/interest-group>

First Amendment to the U.S. Constitution. The federal government and the majority of U.S. states regulate lobbying. Most laws, such as the Federal Regulation of Lobbying Act (1946), require that lobbyists register and report contributions and expenditures and that groups whom they represent make similar reports. The efficacy of these laws is doubtful. Especially difficult to regulate is any kind of indirect lobbying - such as group activity designed to influence government by shaping public opinion.”¹

Campaign finance / campaign contributions = “organizations may provide favoured candidates with money and services. [...] Substantial election campaign contributions or other assistance may be supplied to favoured legislators or executives.”² (As can be seen, campaign contributions are included in the lobbying activities, they are meant to influence the activity of the legislators in the favour of the interest group.)

Statism = „concentration of economic controls and planning in the hands of a highly centralized government often extending to government ownership of industry”³

Corporatism = „the theory and practice of organizing society into “corporations” subordinate to the state. According to corporatist theory, workers and employers would be organized into industrial and professional corporations serving as organs of political representation and controlling to a large extent the persons and activities within their jurisdiction. However, as the “corporate state” was put into effect in fascist Italy between World Wars I and II, it reflected the will of the country’s dictator, Benito Mussolini, rather than the adjusted interests of economic groups.”⁴

“Neo-corporatism [...] is a modern version of state corporatism, which emerged in the late 19th century in authoritarian systems and had several manifestations in the first half of the 20th century - for example, in Adolf Hitler’s Germany and Francisco Franco’s Spain. In this system, society is seen as a corporate - that is, united and hierarchical - body in which the government dominates and all sectors of society (e.g., business, the military, and labor) are required to work for the public interest as defined by the government.

Whereas state corporatism is coercive, neo-corporatism is, in theory, based on voluntary agreement between government and labor and business interests. The goal is primarily economic; the neo-corporatist model focuses on keeping costs and inflation in check so that the country can be competitive in international trade and maintain and enhance the domestic standard of living. To be able to establish and maintain a neo-corporatist interest group system, a country has to have peak associations that are able to enforce the agreements between business, labor, and the government. Consequently, in Scandinavian countries, Germany,

¹ <http://www.britannica.com/EBchecked/topic/345407/lobbying>

² idem

³ <http://www.merriam-webster.com/dictionary/statism>

⁴ <http://www.britannica.com/EBchecked/topic/138442/corporatism>

Austria, and Switzerland, for example, where there are major peak associations that dominate their respective economic sectors, neo-corporatism can best explain major interest group activity.”¹

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¹ <http://www.britannica.com/EBchecked/topic/290136/interest-group/257770/Neo-corporatism-and-state-corporatism#ref=ref913791>